

SMBC Aero Engine lease has been created from a purchase of shares by SMFL, with plans to increase its engine lease portfolio to \$1 billion.

Sumisho Aero Engine Lease transforms into SMBC Aero Engine Lease

Engine lessor Sumisho Aero Engine Lease (SAEL) has transformed into SMBC Aero Engine Lease (SMBC) following the sale of a portion of Sumitomo's shares to Sumitomo Mitsui Finance Lease (SMFL) in April 2019. The transaction was completed with the aim of expanding its engine lease portfolio.

SAEL was created as a joint venture in 2013 between Sumitomo Corporation, which held 90% of the shares, and MTU, which held 10%. SAEL has built up its lease portfolio to a pool of about 40 engines with a book value of \$400 million. The portfolio comprises all new engines with an average unit book value of \$10 million, and includes the CFM56-5B, CFM56-7B, V2500-A5, CFM LEAP, GE90 and GENx.

Despite the achievement of establishing this portfolio, further capital and financial support is needed to rapidly expand the portfolio of engines.

Akinori Kojima, managing director and chief executive officer at SMBC Aero Engine Lease, explains that SAEL reached an agreement with SMFL to buy a portion of the shares held by Sumitomo in SAEL. SMFL's shareholders are Sumitomo Corporation and SMBC Bank. SMFL is a big financier in Japan, and was a logical choice for SAEL.

With the purchase by SMFL of 65% of Sumitomo Corporation's shares in SAEL, the latter's share has reduced from 90% to 25%. MTU's shareholding has remained unchanged at 10%.

The purchase of these shares by SMFL was in return for it to provide financial support to increase the engine portfolio through purchases. SMFL did not put in any additional equity above purchasing shares.

SAEL changed its identity to SMBC Aero Engine Lease as a result of the change in shareholding. The new

company was launched in April 2019.

Kojima explains that the aim is to grow the engine lease portfolio from its current level to about \$1 billion, mainly through the purchase of current-generation narrowbody and widebody engines, plus CF34-10E engines for the larger Embraer E-Jets.

SMBC will continue to invest in the same generation engines, plus the CFM LEAP, Pratt & Whitney PW1000G geared turbofan, and the GENx. These modern engines will be the core of its portfolio in the future.

SMBC expects to acquire 60-70 new-generation engines over the coming years. These will clearly be more expensive and have a higher book value than those held in its current portfolio. Values of types such as the GENx and GE90-115 are \$25-30 million.

SMBC's long-term strategy is to be a medium- and long-term engine lessor, supplying airlines with engines to support their fleets for extended periods. SMBC will therefore be closer in size to the market's two largest independent lessors Willis Lease Finance Corp (WLFC) and Engine Lease Finance (ELF), each with about 200 engines. ELF is the biggest, and is 100% owned by Mitsubishi. WLFC is the second largest. SMBC Aero Engine Lease is small by comparison. The expansion of its portfolio by 60-70 engines will take it to about half the size of ELF and WLFC, at 100-110 engines.

Other small independents include GA Telesis and AerFin. TEAM is a joint venture between Marubeni and SR Technics. It has a similar portfolio to SMBC.

In addition to these, engine manufacturers that have traditionally supported their own engines are reportedly branching into other types, with Rolls-Royce Partners Finance (RRPF) expanding to acquire CFM56 engines.

SMBC says that it will sometimes buy engines speculatively, and that it is in the market for sale-and-leaseback transactions to grow its portfolio. It is prepared to buy engines without leases attached.

In addition to SMBC Aero Engine Lease, Sumitomo Corp has another joint venture with MTU. This is known as Maintenance Lease Services (MLS), and is 80% owned by MTU and 20% by Sumitomo Corp. MLS is focused on providing short-term leases and acquiring used engines for teardown to provide parts and used serviceable material (USM) for engine maintenance. MLS therefore complements SMBC's long-term engine-leasing activity.



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